

## **Rental Losses Can't Reduce PAYE**

Generally, tax is levied on an individual's income originating from a source in Botswana. Accordingly, the same principle triggers the concept of consolidating an individual's multiple income streams in Botswana on the basis that they are originating from one source. However, a quandary usually arises when one income stream derives a loss and the other a taxable income. We want to demonstrate that an individual operating a business enterprise such as property rentals whilst they are employed can't offset rental losses against salary so as to reduce PAYE.

The Income Tax Act requires that in the determination of the tax liability of an individual in business who is also an employee, the taxable income from all sources of income should be consolidated and then one applies the applicable tax rate thereon. However, where an individual's business undertaking generates a tax loss the two income streams are separated for the purposes of determining the absolute tax. The business tax loss is isolated from the employment income for the determination of PAYE. It may seem logical to offset the business loss against the employment income since the two incomes are consolidated when determining tax, unfortunately such practices are prohibited and not consistent with the provisions of the tax laws.

The business losses are tacitly ring-fenced and limited to the business of a taxpayer when one thoroughly analyses the Income Tax Act. Accordingly, such tax losses from an individual's enterprises cannot be used to reduce any arising PAYE liability from employment emoluments. However, the same losses can be used to reduce future taxable income of the same enterprise. Conversely, where an employee generates other income through a business venture, the PAYE deducted from his/her salary technically becomes a withholding tax that can be claimed as a credit when assessing the individual's tax. The taxable income would be the aggregate of the salary and rental business income. You can read more tax articles on our website, [www.aupracontax.co.bw](http://www.aupracontax.co.bw) under the 'Tax Articles' tab. **This article is of a general nature and is not meant to address particular matters of any person. Please contact us on +267 71815836 +267 3939435 or [jhore@aupracontax.co.bw](mailto:jhore@aupracontax.co.bw) for tax consulting or to join our free Tax WhatsApp group or to know about our 9 Tax e-books**